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FIRST COUNTRY PROGRAMME FOR THE REPUBLIC OF MOLDOVA

Programme period	Actual resources programmed	$
1994-1996	Net IPF	1 045 000
	Estimated cost-sharing	5 588 100
	Total	6 633 100

CONTENTS

		Paragraphs	Page
I.	DEVELOPMENT SITUATION, OBJECTIVES AND STRATEGIES	1 - 10	2
	A. Current socio-economic situation	1 - 7	2
	B. National development objectives and strategies	8 - 10	3
II.	EXTERNAL COOPERATION	11 - 16	4
	A. Role of external cooperation	11 - 14	4
	B. Aid coordination arrangements	15 - 16	5
III.	THE COUNTRY PROGRAMME	17 - 41	5
	A. Assessment of ongoing country programme	17	5
	B. Proposals for UNDP cooperation	18 - 35	6
	C. Assistance outside the main country programme areas	36 - 39	9
	D. Implementation and management arrangements	40 - 41	10

Annexes

I. Financial summary
II. Programme matrix

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I. DEVELOPMENT SITUATION, OBJECTIVES AND STRATEGIES

A. Current socio-economic situation

1. The Republic of Moldova is at a crucial stage in its transformation towards a democratic system and a market economy. The 1993 per capita gross national product is estimated at $1,183 (World Bank Atlas). The population of 4,362,000 is ethnically diverse, with most of the population being Moldovan (65 per cent), followed by Ukrainians (14 per cent), Russians (13 per cent), Gagauzians (3.5 per cent) and others. The population growth rate is estimated at 0.6 per cent (1985-1992), with a high population density of 130 persons per square kilometre. Average life expectancy is 65 years for men and 72 years for women.

2. There are positive trends in the transformation, such as a stable currency, reduced inflation and some growth potential evident in a number of sectors. However, overall, the economy, since 1991, has experienced a reduction in gross national product of 46 per cent, in national revenue of 45 per cent, in industrial output of 31 per cent and in agricultural output of 30 per cent. The output decline continued in 1993, although the decline was much less than in 1991 and 1992: Net material product (NMP) decreased by 3.9 per cent in 1993 compared to 18 per cent in 1992 and 29 per cent in 1991. Relative stabilization was beginning to take place in 1994 but this trend was reversed by natural calamities that set back agricultural production severely in the second half of 1994, reducing agricultural production by 50 per cent.

3. Moldova's economic role, when it was part of the Soviet Union, was to produce raw and processed foodstuffs, mainly grapes, grains, wines, vegetables and livestock, and also tobacco. Agriculture is therefore the main economic sector constituting about 42 per cent of NMP. Industry is a second important sector, contributing around 38 per cent to the NMP, with agribusiness accounting for almost half of this amount. It is estimated that 70 per cent of industrial production capacity is underutilized or not utilized at all.

4. The country continues to depend to a high degree on trade with the Commonwealth of Independent States (CIS). Approximately 74 per cent of its exports and 71 per cent of its imports are with the CIS countries, mainly with the Russian Federation. However, Moldova's almost total dependence on energy imports from the Russian Federation creates a trade imbalance. The Government is attempting to encourage trade and investment with the West, particularly with the European Union and the United States. This diversification approach is developing. Linkages with Eastern and Western markets continue to increase.

5. The Government's reform programme has been ambitious. The main efforts have included: (a) fiscal reform, reducing budget transfers to State-owned enterprises, eliminating subsidies, introducing new taxes, eliminating some tax exemptions and increasing excise tax coverage, measures which led to reduction in the fiscal deficit to 8 per cent of gross domestic product (GDP) for the first half of 1994; (b) maintaining a tight monetary policy and introducing a new currency, with a resulting decrease in inflation from 2,200 per cent per annum in 1992 to 2 per cent per month rates in 1994; (c) privatization and

private sector development, including 1993-1994 and 1995-1996 privatization programmes and small business development, which are at present well under way; (d) commercialization of the agricultural sector, freeing of input prices, restructuring of State collective farms, and some commercialization and eventual demobilization of agricultural service parastatals; (e) trade, price and competition reform which include phasing out barter trade and interstate trade agreements, change to competitive procurement practices, elimination of domestic competition barriers and elimination of margin controls; and (f) financial sector reform, including rebuilding of the sector's infrastructure, in order to mobilize an increased volume of savings to be channelled to productive investments. Accompanying the economic transformation is the reform of the social safety net. The Government has expanded the financial provision tc target groups impacted by the transformation and has undertaken other measures of social service adjustment.

6. Progress in the above areas, however, could have been more productive and further advanced but for a number of internal and external factors. These factors are: the rapid fall in inter-republican trade; the 1992 military conflict in Transnistria which resulted in an estimated loss of about $300 million and which had a strong, negative impact on investment attraction and private business development; an increase in the import costs of raw materials and energy resources; and natural calamities including droughts and floods, which severely affected agricultural production. Compounding the impact of these is the insufficient amount of external resources, notably of donor assistance.

7. Given the reforms being made and the above-mentioned negative factors, Moldova is now at a critical stage of adjustment. The reform process is at all times threatened. Its fragility is evidenced by continued low standards of living; public sector wage, tax, and fuel arrears; delayed payment by enterprises for externally financed imports; delayed transfers of overdue government guaranteed loans to State-owned enterprises (SOEs), and an increase in barter deals. None the less, there is further scope for reform, such as the removal of certain tax exemptions which are now distorting the system, further private sector environment development, further commercialization and privatization of large and inefficient SOEs, many of which are still monopolies and absorb credit needed by the fledgling private sector, and improved coordination and management of external resources.

B. National development objectives and strategies

8. Since its independence in 1991, Moldova has been involved in a process of nation building. As a consequence, its objectives have been to achieve three difficult but fundamental transitions:

(a) From a centrally planned economy to a market economy;

(b) From part of a large country to an independent country;

(c) From an authoritarian system to a democracy.

9. The Government has therefore embarked on an extremely courageous process addressing three priority areas. The first involves macroeconomic reform and stabilization. The second involves the process of transition to a democracy, a separation of powers, as well as checks and balances and accountability to the people, all of which are fundamental in a democratic market economy. The third objective has been to break away from the economic ties and linkages which the country had exclusively with the former Soviet Union and to establish an additional network of economic linkages.

10. These objectives have been pursued simultaneously, given that the establishment of a market economy would be most difficult without a major change in the political, judicial and administrative systems.

II. EXTERNAL COOPERATION

A. Role of external cooperation

11. The International Monetary Fund (IMF) has had three agreements with Moldova: the Catastrophe and Compensatory Financing Facility of $19 million; the Systemic Transformation Facility of $62 million; and a Stand-By Agreement of $74 million. The World Bank financial support comprises an Emergency Drought Recovery Loan of $26 million (March 1993); a Rehabilitation Loan of $60 million (October 1993) and an Adjustment Loan of $60 million. However, these resources, although most necessary for Moldova, do not constitute development assistance, since they do not have a concessionary element. Nevertheless, they have had a noticeable impact, given the conditionalities which have accompanied the granting of the resources.

12. Development assistance, as such, to Moldova, amounted to $37.7 million in 1993. Nearly 93 per cent was from bilateral sources, with the United States being the largest donor, with assistance, mainly humanitarian, amounting to $26 million. Other principal donors were Romania ($4.3 million) and the Netherlands ($2.7 million). Multilateral official development assistance was low in 1993 but is expected to increase greatly, given the recent start-up of assistance efforts and their implementation in 1994. Non-governmental organization (NGO) assistance amounted to $1.1 million in 1993. Emergency and disaster relief accounted for about 81 per cent of total assistance in 1993, mainly in the form of humanitarian aid and assistance to the health sector. Free-standing technical cooperation amounted to 14 per cent of the total, while investment-related assistance amounted to only 2 per cent.

13. For 1994, the flow of external resources is expected to increase to more than $48 million, with increases expected from United Nations agencies, the World Bank, the European Union and the European Bank for Reconstruction and Development. Given current and proposed and recently implemented projects, free-standing technical cooperation is expected to increase in 1994 and beyond. Moreover, external resources are expected to be greater because of additional disaster and humanitarian relief efforts following the severe hurricanes and floods experienced in mid-1994.

14. The United Nations Development Programme (UNDP) contribution has been increasing rapidly since the start of operations on 6 February 1993. For the period 1993-1996, indicative planning figure (IPF) resources amounted to $1,045,100. This amount is expected to be complemented significantly as pending and potential cost-sharing agreements are solidified in the 1995-1996 period.

B. Aid coordination arrangements

15. The Government established a Department of Foreign Economic Relations and Foreign Assistance within the Ministry of Economy in 1994. Within the Department are the Directorate on Development of Foreign Investment and Attraction of Foreign Financial Resources; the Directorate on Coordination of Foreign Technical Assistance; the Directorate of Foreign Trade Policy and Bilateral Agreements; and the Directorate of Economic Relations with CIS Countries. The institutional strengthening and capability development of this department will be assisted by two UNDP efforts: projects MOL/93/901 "NATCAP for Moldova" and MOL/93/003 "Strengthening National Capacity for External Resources Management".

16. The first Consultative Group meeting for Moldova was held in Paris in October 1993 with a second meeting scheduled for 1995. The first meeting was considered most successful, with pledges totalling $330 million. Importantly, the role of technical cooperation was emphasized as a significant element for the transition process. The second meeting, however, will have to take account not only of Moldova's development needs for 1995, but also of the costs of the natural disasters which struck in 1994, the effects of which have been estimated conservatively at $384 million (equivalent to about one and a half times the 1994 government budget).

III. THE COUNTRY PROGRAMME

A. Assessment of ongoing country programme

17. UNDP started operations in Moldova in February 1993, with the arrival of its Resident Representative. After discussions with the Government to determine the country's priority needs and after examining the assistance planned by donors, a programme of activities for UNDP was formally agreed upon. However, rather than a country programme, a short-term country framework was formulated, which encompassed the planned activities and has guided them until the present time. Most of these have concentrated on assisting the Government in its transition process. Evidencing the dynamism of the Government, most of the planned projects have already started operation, with two of the projects already having passed through a first review by the Government and UNDP and been judged very positively.

B. Proposals for UNDP cooperation

1. Preparatory process

18. With respect to UNDP programme activities, the last year and a half has been dedicated mainly to programme and project design, formulation and approval. A number of United Nations specialized agencies also participated in the process, especially in the formulation of programme documents. Noteworthy was the Joint United Nations Social Sector Mission in which six United Nations agencies, offices or programmes participated: the International Labour Organization (ILO), the United Nations Children's Fund (UNICEF), the United Nations Development Programme (UNDP), the United Nations Educational, Scientific and Cultural Organization (UNESCO), the Office of the United Nations High Commissioner for Refugees (UNHCR) and the World Health Organization (WHO). The participation also of the Management Development Programme (MDP) was particularly helpful to the mission in formulating the Governance and Democracy Programme.

19. In view of the small IPF allocated to Moldova, emphasis was placed on obtaining SPR and cost-sharing funds to complement the IPF.

2. Strategy for UNDP cooperation

20. The principal objective of all projects is to promote growth in the economy and the employment of the population, thus assisting the country to overcome the main problems of the transition process and achieve sustainable human development.

21. However, given the small IPF allocated to Moldova and the many needs for resources, the Government proposed that UNDP follow a two-pronged approach. The first component involved the formulation of programme documents which would be presented to donors for funding. Originally, five programme documents were planned but the number was later reduced to three, since other donors had shown interest in formulating and funding two of the programmes. The second component of the approach involved the use of UNDP funds as seed money. Thus, projects were formulated with small amounts of funds, in the belief that, if they proved successful, other donors would enter into cost-sharing. This has proven a successful strategy, as exemplified by the targeted programme definition and implementation activities and the potential for attracting cost-sharing funds and promoting collaboration with other donor efforts. The strategy will be continued.

22. The above approach focuses on the areas in which UNDP has experience and which meet vital needs of public and private sector transformation. The priority areas are: governance and democracy; capacity-building; social sector development; and the environment. The approach to these is defined below.

3. Proposed UNDP cooperation in selected areas of concentration

23. The programme will remain focused on political and economic transition and the resulting social and environmental implications. The following are the areas of concentration:

(a) Governance and democracy;

(b) Human resources and management development;

(c) Social sector; and

(d) Environment.

Governance and democracy

24. Support will be given for the reform of the parliamentary, judicial and legal systems. This will involve advisory services on constitutional reform, support for parliamentary institution building, support for the judicial system, and the strengthening of the capabilities of local governments to enable them to deal with the new relationship with the central government and equip them to address the problems of the local communities.

25. The Governance and Democracy Programme is the main focus of the UNDP programme on political issues. The programme document is completed and discussions are ongoing regarding donor funding identification. Fund identification for the programme and other activities in this area are of high priority. The programme is expected to go into operation in 1995. However, given the need to address some urgent issues, UNDP funded the project MOL/94/001 "Technical Assistance to the Parliament and to the Judiciary", which has been instrumental in providing timely advice to assist in the drafting of the constitution and the preparation of a Parliamentary Operations Manual.

26. The above-mentioned efforts will be complemented by the Regional Project RER/94/001 "Democracy, Governance and Participation".

Human resources and management development

27. The major objectives are threefold: (a) to strengthen human resources and institutional activities within the public sector; (b) to strengthen economic performance by developing the private sector policy framework and accompanying human resources in the areas of management and operations; and (c) to provide direct counterpart training and develop information production capabilities to assist public sector and enterprise performance.

28. A number of initiatives are involved in this area, including the projects MOL/93/003 "Strengthening National Capacity for External Resources Management" and MOL/93/901 "NATCAP for Moldova", the first of which is jointly funded with the Royal Government of the Netherlands and the second with SPR resources. The purpose of the two projects is to strengthen the capacity of the Government to manage and coordinate all foreign resources in line with development needs.

These efforts will be complemented by the regional project RER/93/025 "Regional Training/National Capacity Building for External Resources Management". A further project, with a similar purpose is project MOL/94/002 "National Junior Professional Officer for Local Capacity Building" (also jointly funded with the Royal Government of the Netherlands). This project incorporates a novel idea, to be implemented first in Moldova, and perhaps extended later to offices in other countries. Under the project, two junior professional officers from the Government of Moldova will work in UNDP/Moldova to familiarize themselves with United Nations activities and, after one year, will return to the Government with an increased knowledge of United Nations and donor activities.

29. The second initiative relates to support on economic matters in general and improving the private sector policy framework and the accompanying human resources. It includes project MOL/94/003 "Small and Medium Enterprises in Moldova", which will be complemented by the regional and international projects RER/94/004 and INT/94/314 "Catalytic Support to Small and Medium Enterprises". The purpose of these projects is to set up a centre to facilitate the establishment of businesses and their development. The centre will be along the lines of the United Nations Centre for Small and Medium Enterprises of Bucharest, which has been most successful. These projects, which will be executed by the United Nations Industrial Development Organization (UNIDO), will be complemented by similar efforts to be funded by that Organization. Among these will be the provision of a Senior Policy Adviser for the Promotion of Entrepreneurial Activity, as well as other short-term experts to work with the Senior Policy Adviser, all of whom will enhance the national capacity on these issues. Additionally, there will be training for senior policy officials on policies to promote entrepreneurial activity. UNIDO will also organize an Investor's Forum, preparations for which will start in 1995. Another endeavour is project MOL/93/005 "Women in Development", which aims at strengthening the capacity of a Unit within the Ministry of Labour in order to promote the involvement of women in the development process, specifically encouraging them to participate in entrepreneurial activity. Project RER/94/005 "Development of Intra-CIS Trade and the Strengthening of External Trade Capacities of CIS and the Baltic States" aims at promoting external trade, thereby improving the economies of the region. Since the proposal for the project originated in Moldova, it is fitting that the international seminar, which will initiate an import involvement of the United Nations on trade within the CIS, will be held in Moldova. It is to be emphasized that the programmes to be identified in the seminar will be directed to strengthening national capacities for increased trade.

30. The third initiative refers to project MOL/93/002 "Assistance to the Government through Transfer of Knowledge through Expatriate Nationals (TOKTEN), United Nations Short-Term Advisory Services (UNISTAR), United Nations Volunteers (UNV) and Technical Cooperation among Developing Countries (TCDC)" which will supply advisers and training, both to the Government and to enterprises. There is a great demand for such training. The project is and will continue to be complementary to existing and planned projects. A further effort relates to the strengthening of the capacity of the Directorate of Statistics in both national accounts and industrial statistics. This will assist the Government and the private sector in decision-making based on reliable statistics.

Other areas

31. The social sector and the environment are two additional priority areas under this country programme and in the absence of IPF resources, additional funds, including SPR, Capacity 21, GEF, are actively sought to ensure the implementation of projects.

Social sector

32. Assistance to the social sector is urgently needed, since employment, health, education and basic services have been seriously affected by the transition process. In view of this, a Social Sector Programme Document and a Municipal Services Reform and Public Works Programme Document are being formulated. These will be presented to donors for funding.

33. The effort to promote sustainable human development is being pursued and will continue to be a main activity in coordination with other programme areas. In line with this, a national human development report will be prepared in early 1995.

Environment

34. Issues resulting from past and present environmental practices must be urgently addressed. These include water and soil contamination due to excessive use of pesticides and chemicals. A mission to be funded under Agenda 21 is therefore planned to arrive in Moldova in early 1995 to formulate a programme document.

35. Also noteworthy is the report of the International Atomic Energy Agency (IAEA) on Strengthening Radioactive and Nuclear Safety and the project which has recently been formulated and for which donor assistance will be sought. Since Moldova is surrounded by eight nuclear reactors, all of them within 150 kilometres of its borders, this is an important project.

C. Assistance outside the main country programme areas

36. Assistance in this area has been and will continue to be provided by information gathering and dissemination efforts, United Nations agency and programme support, and disaster and humanitarian relief efforts.

37. Information services have been provided through the following:

(a) Weekly Information Report: Reports on current political, economic and social activities in Moldova, sent to Ambassadors accredited to Moldova but stationed in Bucharest, Kiev and Moscow as well as to the United Nations Department of Political Affairs;

(b) The Development Cooperation Report (DCR): The DCR has been drafted and will be disseminated to the Government and major donors;

(c) Visits to Ambassadors: Visits are made twice each year to the Ambassadors accredited to Moldova but stationed in Bucharest, Kiev and Moscow to inform them of current events in Moldova and United Nations activities in Moldova;

(d) National consultant studies: About 30 studies have been prepared and printed in volumes I, II and III "Studies Formulated by Moldovan Consultants", which have been distributed to Moldova's main donors; a fourth volume is expected.

38. Direct support to other United Nations agencies has included support to UNIDO, the United Nations Population Fund (UNFPA), the United Nations Children's Fund (UNICEF) and the United Nations International Drug Control Programme (UNDCP). To be noted is the support to UNFPA on family planning and maternal health care, and in-country start-up assistance to the UNICEF programme, expected to start in May 1995.

39. Support to disaster and humanitarian relief has also been a major and ongoing effort. During the hurricanes and floods of 1994, UNDP, together with the Department of Humanitarian Affairs (DHA), played a key role in coordinating relief efforts. Contributions were made by Austria, Denmark, Italy, Switzerland, the United Kingdom, and the Sasakawa Foundation. More than $700,000 in cash was channelled through the UNDP office to the Government and two airlifts with goods from Germany, Japan and Luxembourg took place. Contributions from UNDP and UNDHA totalled $80,000. A project document will be formulated for assistance to the Government on Disaster Preparedness, to be carried out in early 1995.

D. Implementation and management arrangements

40. The UNDP programme in Moldova was established and is being implemented rapidly, evidencing both the Government's commitment to technical cooperation and its absorptive capacity. The implementation of projects and the conduct of programme studies have resulted in an active programme with full government participation. It is to be noted that the Government supports national execution of programmes, especially with respect to the maximum utilization of national capacity in their management. Whenever required, training will be arranged for the managers of national programmes. National consultants, TOKTEN, UNISTAR and UNV mechanisms will be applied for this purpose, wherever possible.

41. In accordance with UNDP regulations and procedures, a mid-term evaluation will be carried out during the country programme. The results will be analysed, priorities reassessed and, if necessary, the country programme will be modified.

Annex I

FINANCIAL SUMMARY

I. ESTIMATED RESOURCES (IPF + cost-sharing) TAKEN INTO ACCOUNT FOR PROGRAMMING

	$	$
Carry-over from fourth cycle IPF	-	
Fifth-cycle IPF	1 045 000	
Subtotal IPF		1 045 000
Government cost-sharing	-	
Third party cost-sharing	5 588 100	
Subtotal cost-sharing		5 558 000
TOTAL		6 663 100

II. ALLOCATION OF RESOURCES (IPF + cost-sharing) BY AREA OF CONCENTRATION

Area of concentration	IPF	Cost-sharing	Total	Percentage of total resources
Democratization	103 572	4 838 900	4 942 472	74.5
Capacity-building	941 428	489 200	1 430 628	21.6
Social sector	-	110 000	110 000	1.6
Environment	-	150 000	150 000	2.3
TOTAL	1 045 000	5 588 100	6 633 100	100.0

III. COMPLEMENTARY ASSISTANCE FROM OTHER SOURCES

A. UNDP-administered funds

	$	$
Special Programme Resources	800 000	
UNFPA	350 000	
UNIDO	250 000	
Subtotal		1 400 000

B. Other United Nations resources

C. Other non-United Nations resources

Flood relief	700 000	
		700 000
Subtotal		2 100 000

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Annex II

PROGRAMME MATRIX

Area of concentration	Area of focus					
	Poverty eradication and grass-roots participation in development	Environment and natural resource management	Management development	TCDC	Transfer and adaptation of technology	WID
Human resources and management development		*	*	*	*	*
Democratization	*		*		*	
Human development and the social sector	*	*	*		*	*
Environment	*	*	*		*	
Entrepreneurial activity promotion and private sector development	*		*	*	*	*